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CENTRAL INTELLIGENCE AGENCY
UNITED STATES OF AMERICA

# Central Intelligence Bulletin

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JAPAN: Tokyo's aid to developing nations, which rose nearly 70 percent to reach over $1 billion last year, apparently will continue to go up. Under the draft budget for fiscal 1974, aid allocations are scheduled to increase 27 percent over last year's budget.

Japanese aid terms are becoming increasingly generous, although they are still harsher than those of most major Western donors. The new budget allocates nearly $500 million in grants, up more than 40 percent over the level last year; slightly over half the amount is slated for multilateral contributions. The major portion of the $840 million allocated for loans will carry concessionary terms.

With few exceptions, however, Tokyo will probably not allow loans to be used to procure goods and services from developed countries. Because of balance-of-payments constraints, many Japanese businessmen and officials want development project loans to help finance Japanese exports.

There will be a significant shift in the direction of Japanese aid as a result of the Arab oil-production cutbacks and Tokyo's dependence on imported oil and other commodities. Middle East countries, which in the past received minimal Japanese aid, are being promised substantial loans and technical aid to help ensure friendly ties with oil-producing nations. Nevertheless, the major portion of bilateral aid will continue to go to Southeast Asia, especially resource-rich Indonesia.

Japan's aid will flow increasingly to countries producing minerals and agricultural commodities needed by Japan. One aim of the prospective International Cooperation Agency, to be headed by a cabinet-level minister, will be to secure supplies of key raw materials for Japan. Thus, although Latin America and Africa will have the lowest priority, some mineral-rich countries there, such as Peru, Bolivia, and Zaire, are likely future recipients.

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<u>SOUTH KOREA</u>: Seoul will seek $3 billion in foreign loans over the next two years. Large capital inflows are needed to offset a projected $1.1-billion trade deficit this year. Major Western aid donors, meeting in Paris this week, have already agreed on the need to increase aid funds. On the basis of South Korea's economic gains, including a record 17-percent real growth rate last year, the aid donors feel that with $3 billion South Korea will be able to weather its economic difficulties.

The large increase in Seoul's requirements is mostly the result of higher oil prices on the import bill. Oil imports will cost at least $900 million this year, an increase of $600 million over last year. Except for Brazil and India, this increase will be the largest of any developing country. Other import costs, especially for food, will also rise sharply.

The $1.5 billion a year in private and official loans that Seoul is seeking compares with an estimated $1 billion received last year. South Korea should have little difficulty financing a rising foreign debt in view of the improvement in its debt position over the past few years. In 1973, debt service payments were only about 10 percent of export earnings, compared with about 20 percent in 1971.

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FRANCE: In a move designed to bolster the sagging French aircraft industry, Paris reportedly has instructed Air France--the international carrier--to purchase only French-manufactured short- and medium-range aircraft. France does not build any aircraft that can successfully compete with the long-range aircraft now being built in the US.

The move has not been well received by Air France, which now primarily flies US-built aircraft. In recent months the airline expressed interest in purchasing short-range Boeing 737s. If the French Government ban holds, as expected, the airline will probably be forced to purchase the still unproven, shorter range Dassault Mercure instead.

The Mercure's sole advantage is its price--tentatively set at $6.5 million, some $2 million less than the Boeing 737. Thus far, only ten of these aircraft have been sold, after extreme governmental pressure, to a French domestic carrier.

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